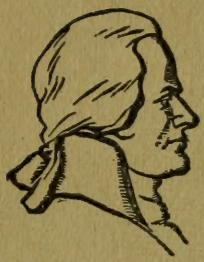
3 1761 07488431 3

EcC
M6896

EcC
M6896

[Modern business Talks]

MAKING BRAINS PRODUCE PROFITS

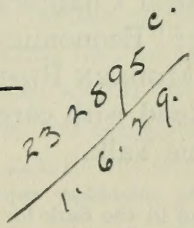


MODERN BUSINESS
TALK No. 3

ALEXANDER HAMILTON INSTITUTE
NEW YORK

Making Brains Produce Profits

Number Three of a Series of Modern
Business Talks Prepared by the
Alexander Hamilton Institute



ALEXANDER HAMILTON INSTITUTE
NEW YORK

Copyright, 1917, by Alexander Hamilton Institute

All rights reserved

READING ASSIGNMENT
NUMBER THREE

"In an economic sense every man or woman is a producer whose labor tends to the gratification of human wants or to the increase of utilities, whether thru a service which increases the supply of economic goods or thru a service which in itself gives pleasure to the consumer."
—Page 27, Chapter II, Volume 2 of the MODERN BUSINESS Text.

(1) Read this Talk on "Making Brains Produce Profits." It illustrates the importance of understanding how economic principles enter into nearly every commercial enterprise and shows how the possession or absence of that knowledge at times determines the success or failure of a business.

(2) Read Chapters I to IX, (pages 1 to 157 inclusive) of "Economics of Business," which is Volume 2 of the MODERN BUSINESS Text.

(3) Read with care Lecture No. 2, which accompanies this Talk.

The young schoolboy enjoys a strong sense of satisfaction when, after groping in the dark for the solution of some problem in arithmetic, he suddenly realizes the meaning of a—to him—new principle. It is so with the business man in his study of fundamental principles of economics. He may find them a trifle dry at first, but his pleasure is keen when later he is able to apply them to some big business problem. And that is just what the big man of affairs does.

"Get your principles right; the rest is a mere matter of detail."—NAPOLEON.

Making Brains Produce Profits

"The final factor in the production of wealth is the brain power or business ability which directs the labor in its utilization of land and capital and assumes all responsibility for the payment of wages, rent and interest."—Page 54, Chapter IV, Volume 2 of the MODERN BUSINESS Text.

The question is sometimes asked why economics should have a place in the MODERN BUSINESS Course. That question is readily answered. Most of us are sailing on some business craft, and it is probably our ambition to be on the bridge, directing the course of the ship. But to do that efficiently, we must not only know our charge from the penant at the masthead to the lowest part of the keel, but we must also be acquainted with the waters in which our craft is to sail—the currents and eddies, the shoals and reefs —not to speak of the stars by which her course is to be guided.

Now, the purpose of economics is just to chart the seas of business and to trace the unseen currents so that our course may be set intelligently and pursued safely. To illustrate: A worker in the advertising department is always in danger of considering business simply as so much copy to be placed in so many

mediums. An accountant easily falls into a rut bounded by the general ledger on one side and the petty cash book on the other. But a man with a scientific business training, even tho he have no expert advertising or accounting knowledge, may come along and point out one flaw after another in the work of such narrow specialists, simply because he has the broader perspective—he sees at once that the specialist has failed to connect his advertising or his accounting with the broader practical purpose and scope of the business, and that he has omitted to watch the signs of the times.

That is why this second Text of the MODERN BUSINESS Course is an important one. It furnishes an explanation of those basic principles that underlie all business activities. It is, in fact, a review of the really big motive forces of business, shown in relation to one another. Every business—your business, therefore—is necessarily affected by these forces, and to understand them is a necessary part of a business man's education.

> *Economics, as our author shows, deals with the science of business in its social aspect — the causes that affect man's activities in the production and use of wealth.*

Chapters I and II of the present reading assignment contain an interesting discussion of the fundamental principles that govern the science of business, and trace the development of the latter from the earliest times. A knowledge of these first principles

is essential to a clear understanding of the later development of this science.

Among the first economic factors discussed are land and capital. This is natural enough when we consider that production is the necessary result of Nature's resources and man's activities. The one needs the other. They are, as we say, interdependent. In Chapters IV and V important principles relating to production are discussed, and here we enter a broad and interesting field in which many business forces are seen at work and in which many of our commercial activities are found. Yet, we must not think that production is limited to mere physical forces or activities; for in its most refined form, production is a mental process. That is, of course, only an added reason why the study of economics must prove of interest to the modern business man.

How Mental Production Pays

That a knowledge of the principles of economics is not without practical value in the conduct of business, whether this be great or small, is a matter of almost daily observance. Thus, in one of our large eastern cities, some time ago, a small wholesale grocery house had, during a period of several years, struggled unsuccessfully to establish itself on a paying basis. It was situated in the heart of the jobbing district with the larger concerns of its kind and was competing with them for trade both in and out of the city. But its volume of sale was too small to cover its large expenses, let alone showing a profit. Moreover, its

capital was not large enough to finance the greater volume of business that would have to be done if the concern were to be put on a paying basis under the existing conditions.

The only thing to do, as far as the management could see, was to make an open bid for more capital. The firm possessed an efficient inside organization and had a promising selling force. It felt that with sufficient working capital, the business ought to go.

The opportunity attracted the attention of a young man who just then was looking for an investment for a few thousand dollars recently inherited. He had received what was then considered a rather exceptional training for a business career. Upon graduating from high school in his home town he had taken a course in business administration in a well-known university. This, in turn, had been followed with several years of practical experience in a large wholesale grocery house.

But the approaches of the would-be investor were received rather coldly. "What we need here, Mr. Richards," said one of the proprietors, "is a substantial increase in capital. Your $5,000, I fear, would be little more than a drop in the bucket."

"That is true, if you intend to continue along present lines," came the prompt answer. "For even with a large increase of capital you cannot hope to compete on equal terms with the larger houses in this section. Remember, it costs you more to give customers good service than it costs your competitors to do so. You would still be paying the same high

rent without having any special advantage to offer. I can see no reason why your competitor's customers should leave them and buy from you."

He next called the partners' attention to a fact that apparently had escaped their attention altogether, namely that the northern part of the city was growing by leaps and bounds, and that grocery stores in that section, altho small, were quite numerous He asked the partners whether they had not observed that the majority of such stores prefer to buy in small quantities but want quick deliveries, and that for these advantages they are willing to pay slightly higher prices. "Being in the northern part," he went on, "this small trade is not especially attractive to the big houses in this section, and for that reason it is largely neglected. You, yourself, wouldn't care to handle the business from this location, even if you had it. You are not equipped to handle it economically."

"Why not?" The partners were listening respectfully now.

"Well, in the first place, you have to pay cartage from your freight terminal to your warehouse here. Then you have to pay men to unload the stuff from your trucks and store it. If, from your present location, you were selling to dealers in the northern part of the city, you would have to stand the further cost of a long haul—six or seven miles at least. It would take your truck all day to get there and back and it would go up half empty."

"Well?"

"Now suppose you were to secure a location up there, somewhere along the railroad tracks where you could unload directly from the cars to one end of the building, and ship out from the other on your wagons. Even the longest of your hauls would not exceed three miles, most of them would probably be but a few blocks. Moreover, many of these retailers would drive up in their own wagons and take their purchases away with them. Your rent would be but a fraction of what it is here."

Seeing a New Light

Here was an opportunity that apparently could be grasped by a mere change of location. The fear of competition from more powerful concerns would then be removed; there would be a liberal margin of profit and a much smaller percentage of expense. Moreover, the advantages of quick delivery and real personal service would almost certainly bind the customers permanently to the house.

But by this time the subject of increased capital had apparently been wholly forgotten. The partners had seen a new light. The growing deficit over which they had been worrying so much gave promise of troubling them no more. Strange that this matter of location, simple as it was, had never appeared to them in that light before. This young man, who moreover is a mere outsider, walks in and in a few minutes' conversation changes entirely the proprietors' idea of what is wanted! The partners began to discover that they had been travel-

ing in a rut, and that they had been unable to see beyond its narrow boundaries.

It is history now, that this house, acting upon the new light that had been shed upon the situation, grew to be one of the largest and most prosperous in the city. The arguments in favor of removing to another part of the city proved sound in every respect, and the subsequent increase of population in a neighboring section still further enlarged the business.

> *Science is only common sense properly organized and duly labeled. Economics teaches us to do the obvious thing in business.*

Nature's Brain Materials

We are not in the least stretching the truth when we say that an action which directly or indirectly increases the utility or desirability of a commodity is an act of production. Placed within the skull of man are brain materials that may fittingly be likened to the raw materials in a factory or to the goods in a store. These brain materials may produce an income of $1,000 or $10,000 or $1,000,000 a year, according to the way in which they are used. Nature furnishes the raw material for the factory; nature also supplies the raw material for the brain. But these must be transformed by the operation of forces before they can become available as wealth.

However, nature also furnishes the agent thru which the raw factory materials are changed into

useful commodities that produce profits for the business man. Coal and water power, for example, are natural agents. Carry out the analogy and you will see that the brain material possessed by the average man is likewise accompanied by natural forces that may develop it to a profitable degree. These natural forces are the native impulses and energies of man. In nearly all commercial and industrial establishments, there is ample brain and abundant impulse, yet production is sometimes extremely low because these forces are not properly coordinated. Business brains and business energy must be harnessed together if they are to promote efficiency and eliminate waste. Big results are not accomplished by mere activity; it is necessary that the efforts be properly—that is, intelligently—directed.

The scarcity of Morgans and Harrimans is due not so much to lack of brain material as to lack of development. Many a potential Napoleon of business is wearing a corporal's uniform.

Where Profits Walked Away

In an industrial city near Philadelphia is an old manufacturing business where formerly all the estimating was done by the proprietor and his superintendent. No one else was permitted to quote prices. It chanced that on one occasion the superintendent was taken seriously ill while the proprietor was away on a business trip. At this inopportune time a customer requested a quick estimate on a

job comprising a big order for small metal parts. But inasmuch as there was no one present to give such estimate, the order went to a rival concern. In the words of the proprietor who afterward related the incident: "A thousand dollars in profits walked out of the shop."

Aroused by this loss, the proprietor at last began to make a careful study of the situation in his shop. He convinced himself that there were at least three men in his organization who were fundamentally capable of preparing a correct estimate; but the necessary technical data were scattered thruout the plant. He now set about formulating a definite estimating procedure, based on cost units and on a given percentage of profits. Each step in the operation of estimating was standardized and reduced to simple rules. An estimating blank was devised that called for uniform procedure. As a result, not only was a repetition of the $1,000 loss rendered impossible, but certain important defects in former estimating procedures were also revealed and corrected.

Subsequently, a plan for reducing general knowledge to definite rules was introduced in all the departments of the business. The laying-out of work, for example, had formerly been dependent almost entirely upon the personal knowledge and skill of one man. Today this knowledge, which includes familiarity with the work of the whole plant, is systematically gathered and the information is reduced to written form.

Of course, the organization of general business knowledge is very much broader than the incident cited, but the principles are the same. These principles, rightly applied, produce definite results just as certainly in one case as in another, and are just as important in one line of business as in another.

Economics of Pin Making

So closely related are these principles with the success of an enterprise that wherever you find increased production under given conditions, you may always expect to find the operation of economic principles intelligently applied. No better example is needed than that which is furnished by the modern division of labor.

Take the pin industry, for example. Suppose a workman in a pin factory wants to start a little shop of his own and that he undertakes to make pins entirely with his own hands. How many pins could he make in a day? Perhaps a dozen or two—hardly more. Yet the division of the pin-making processes and the correlation of the different operations permit a workman in a modern pin plant to turn out the equivalent of many thousands of pins a day.

A large share of a nation's waste is caused by false economy.

Scientific Steer Killing

Exactly the same economic forces that are seen in the modern production of pins lie hidden, tho they

may be disguised, in the wholesale house, the retail house, the railroad office—everywhere in the field of human activity. Everybody knows that in the packing industry, an immense productive increase followed the economic analysis of slaughtering operations. In the early days of the business, a steer was killed and cut up by a single group of men, each of whom was paid, say, 35 cents an hour. Gradually, however, the science of economics sought a more logical management of this operation. Today many groups of men are engaged in this work. The bulk of the operations is done by low-priced men, but the organization of the work into a rapid and smooth-running machine was done by men who had knowledge of big economic principles. We need not be surprised if their knowledge gave them a large income. Who will say they have not earned it?

What we are especially interested in at this point is that in this remarkable reduction of unit costs, brain production plays the chief part. It is nearly always easy to find men who follow directions; it is not nearly so easy to find men with brains sufficiently broadened thru a study of economics to originate far-reaching productive policies.

Much of the opposition to existing institutions or to advancement in certain directions is due to a lack of sympathetic understanding of economic principles. Such subjects as combinations, trust organizations and monopoly are among those which every business man should be able to discuss intelligently and without bias or prejudice of any kind.

Consumption is a necessary counterpart of production. No one cares to produce that for which there is no demand. But consumption is governed by various important considerations which the author discusses entertainingly in Chapters VI and VII. In Chapter VIII the relation of value to production is the chief subject.

Turning Failure Into Success

Large-scale production, tho it has produced many fortunes, has also wrecked more than one ambitious manufacturer who attempted to multiply his production without first taking the trouble to study the economic forces involved in such an undertaking. One that came near being wrecked is a corporation manufacturing machinery whose stock only a few years ago could have been bought considerably below par. In fact, at one point it looked as tho the concern were rapidly approaching bankruptcy. In his report to the board of directors the general manager said, among other things:

"For months past we have been selling our machines at prices which are considerably below actual cost of production. We had to meet the prices of competitors if we were to sell at all. Our present cost of production is as low as we can ever hope to make it."

Among the directors who had come together to consider the situation, the manager's report had caused little short of consternation. Several of them regarded the situation as almost hopeless and freely voiced their convictions. After most of the directors

had expressed themselves, and just when it became plain that none of them had any definite idea of what could and should be done, the youngest of them, who had in fact only recently become a director, rose to speak. He startled them all by saying: "The situation is not nearly so dark as it looks," and he had a very attentive audience during the remainder of his remarks. In a deliberate and emphatic manner, as one who knows what he is saying, this director proceeded to demonstrate to his associates that large-scale production was the key to the present situation. He anticipated every objection and cited facts and figures in a manner that not only surprised his associates, but convinced them of the feasibility of the plan.

He relieved an obvious tension when he declared that large-scale production did not require the erection of a larger plant, and his statement that an increased output would obviously reduce the overhead charge per unit of production, was a further matter of gratification.

Summarized, these were his recommendations:

1. That the layout of the plant be altered to permit of the most direct and economical routing of work thru the shops.

2. That additional labor-saving equipment be provided and that there be a finer division of operations.

3. That raw materials be bought in larger quantities in order that they may be obtained at lower prices.

4. That effort be made to increase the efficiency of the individual worker and that the proper incentive to greater effort be provided in the form of a bonus system of wage payment.

He concluded his argument by saying:

"Since prices cannot, in view of existing competition, be raised, the remedy clearly lies in reducing costs. And costs can be reduced only by increasing the capacity and the output of the plant. I have shown how this can best be accomplished."

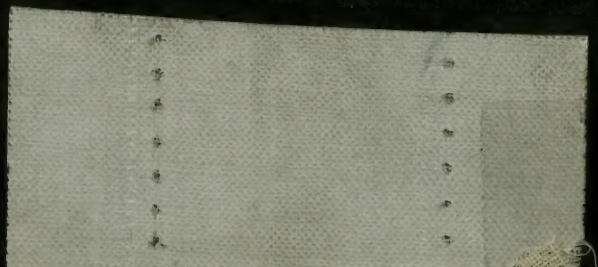
The whole thing was so obvious that every one expressed his entire approval, and steps were at once taken, looking to an immediate increase of production facilities. Altho it took nearly one year to put the plant into proper condition for large-scale production as planned by the director, and another year to show even a modest profit, the business is known to have paid a dividend of fifteen per cent last year with the prospect of still better earnings this year.

Chapter IX, the last in the present assignment, contains a discussion of "Value and the Trader." The author here summarizes for us the important laws underlying the exchange of commodities, in other words trade. That the trader is a producer, just as truly as the laborer or the farmer, and that in fact his services are indispensable to society is clearly shown. To the business man who is daily confronted with problems that call for quick decision based on exact knowledge, we can hardly overestimate the importance of a broad working knowledge of this subject.

EcC
M6826 Modern business Talks
No 3 Making brains produce profits
232805c

DATE.	NAME OF BORROWER.
July 25/45	R J McHardy - grad

NO
26



UTL AT DOWNSVIEW
D RANGE BAY SHLF POS ITEM C
39 11 11 04 13 012 5